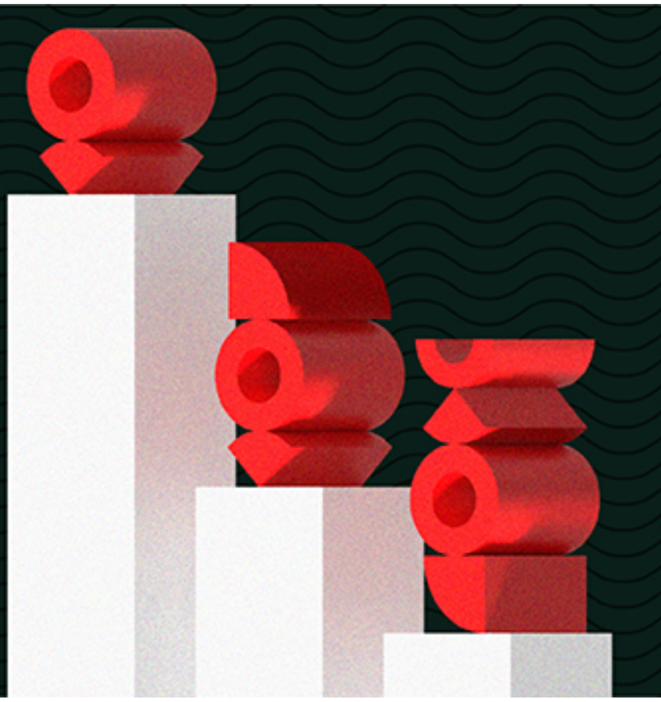
equilibrium

market commentary



Monthly market commentary | October 2023

October brought the third consecutive month of declines for both local and global equity markets. Despite upside surprises in US economic data and US company earnings reports, the addition of the armed conflict in the Middle East to the already precarious geopolitical environment perpetuated negative investor sentiment. South Africa found no shelter from the global storm, as October pushed the local market year-to-date return even lower into the red.

Global equities (MSCI ACWI) ended the month 3%[1] lower in US dollar (USD) terms, with emerging markets (MSCI EM) doing most of the damage, down 3.9%[1]. China was the largest detractor among the emerging markets, with investor uncertainty deepening as President Xi Jinping affirmed his solidarity with Russian president Vladimir Putin and the US increased its efforts to exclude the Asian powerhouse from vital advanced technologies. Developed market equities (MSCI World), which fared slightly better than their EM counterparts, fell 2.9%[1] over the month. The most significant detraction came from Japan (TOPIX), the world's third largest economy, which declined 4.4%[1]. This decline followed from a fifth straight monthly dip in factory activity as their service sector remains under pressure. Although the USD strengthened in October, the rand found itself amongst a small number of currencies that managed to strengthen against the greenback, ending the month at R18.65[2] to the USD.

Local equities (Capped SWIX) followed global markets lower, ending the month down 2.9%[1]. Losses were broad-based as all three super-sectors, namely resources, financials, and industrials, yielded negative returns. Industrials were hardest hit with a 4.5%[1] fall, as the weak consumer drove negative returns across the sector. Although gold miners managed a stellar month, piggybacking off a rising gold price, the resource sector as a whole still came under pressure and fell 3.2%[1] over the month. Financials fared the best, falling only 2.2%[1], with most subsectors ending the month in the red. Local property (ALPI) endured another tough month, falling 3.3%[1], as increased interest rates continue to weigh down on the sector's fundamentals.

The WGBI ended October down 1.1% in USD terms[1], in a month that proved to be very interesting for global bonds. The US 10-year government bond yields touched 5% for the first time in 16 years, with global central banks signalling a higher-for-longer policy going forward as they remain unconvinced that the war on inflation has been won. Despite negative performances in global bonds, local bonds saw a month of recovery as the ALBI rose 1.7%[1]. Although all areas of the yield curve contributed positively over the month, the main driver of performance came from the 12+ year area of the curve contributing 2%[2] as yields ticked lower. Although September's inflation figures came in higher than August's, the view across the market remains stable in that the South African Reserve Bank (SARB) will not hike interest rates, but rather keep rates on hold. Hence, local cash (STeFI composite) is expected to remain stable at a 0.7%[1] return in the coming months.

Prepared by Equilibrium

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[1] Morningstar
[2] RMB asset class returns – October 2023
[3] Momentum Investments

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